

**Follow-Up Audit  
Liquor Control**

October 1998

**City Auditor's Office  
City of Kansas City, Missouri**

# Office of the City Auditor

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October 19, 1998

Honorable Mayor and Members of the City Council:

This follow-up audit of the city's liquor control function was initiated in accordance with the City Auditor's Office policy of assessing the implementation of audit recommendations.

Our 1993 audit disclosed problems with the city's regulation of liquor sales. We found that city staff had wide discretion over granting licenses and imposing sanctions, thus posing the risk that staff could be influenced by those they regulate. We also found control weaknesses relating to issuing employee permits, license review procedures, cash handling, and record keeping.

In response to our audit, the Finance Department wrote policies and procedures for the issuance of liquor licenses. In April 1998, City Council approved revisions to the city's Code of Ordinances related to liquor control. New procedures and the code revisions addressed or eliminated many of the conditions reported in our original audit. Specifically, there is no longer a waiting list for new licenses, the process of obtaining consents for new applications has been clarified, written applicant guidelines have been developed, employee permitting procedures have been improved, and controls over cash handling have been strengthened.

Despite the progress, however, we found several areas where more work is needed. Although the Finance Department wrote procedures covering sanctions to be applied when licensees violate the city's laws, the procedures do not address the criteria to be used to determine when sanctions should be applied.

We also found that staff does not verify information provided on the employee permit application prior to issuing the permit, catering permits are not issued in accordance with the city code, and the filing system continues to be cumbersome. Finally, although permit fees have increased, the city has not made efforts to ensure that revenues are covering costs.

We made a number of recommendations designed to further strengthen the city's liquor control function, including that the division update its procedures to correspond with the April 1998 revisions to the code.

The draft follow-up report was sent to the city manager and the directors of Neighborhood and Community Services and Finance on September 16, 1998. Their responses are included as appendices. We appreciate the courtesy and cooperation extended to us during this project by staff of the Neighborhood and Community Services and the Finance departments. The audit team for this project was Michael Eglinski, Aloysia George and Joan Pu.



Mark Funkhouser  
City Auditor

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# Follow-Up: Liquor Control

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## Introduction

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### Objectives

This follow-up audit of the city's liquor control function was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.<sup>1</sup> A follow-up audit is an examination to determine whether an agency has taken timely and appropriate corrective actions in response to the problems identified and recommendations made in a previous audit.

This follow-up audit was designed to answer the following questions:

- To what extent have recommendations from the April 1993 audit of liquor control been implemented?
- Have recommendations resulted in desired improvements?
- Where recommendations have not been implemented, do conditions warrant that the original recommendation be implemented, changed, or withdrawn?

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### Scope and Methodology

This follow-up audit was not designed or intended to be another full audit of the city's liquor control function. It was designed to determine the progress made in addressing problems identified in the original report and in implementing that report's recommendations.

<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

We conducted this audit in accordance with generally accepted government auditing standards, with the exception of the completion of an external quality control review of the office within the last three years.<sup>2</sup> Our methods included:

- Reviewing our April 1993 audit of liquor control, selected work papers, and Audit Report Tracking System (ARTS) reports responding to the audit.
- Reviewing the city code and state statutes.
- Interviewing city staff in the Finance and Neighborhood and Community Services departments.
- Reviewing program files.

Chapter 10, Alcoholic Beverages, of the City's Code of Ordinances was recently amended. The City Council approved the second committee substitute for Ordinance 971559 on April 2, 1998. We began our fieldwork in June 1998. We were unable to conduct meaningful tests of compliance in several areas because the new ordinance has not been in effect for a long enough time. When we reviewed liquor licensing policies and procedures we made allowances for the recent changes.

No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

The city regulates sales of liquor by requiring individuals engaged in liquor sales to be licensed. It is illegal to sell liquor without the appropriate license. The purpose of regulation is to limit the ill effects of alcohol consumption on the community.

Chapter 10 of the City's Code of Ordinances establishes rules and regulations pertaining to liquor control including licensing and permitting requirements, and the responsibilities of the director of neighborhood and community services and the commissioner of revenue.

When we conducted our 1993 audit, all liquor control functions were under the authority of the Finance Department. In 1997 some of the responsibility for the liquor control function was transferred to the Regulated Industries Division of the Neighborhood and Community Services Department. That department is responsible for investigating licensees and applicants for licenses and permits, while the

<sup>2</sup> The last review was performed in April 1995. A peer review is planned for the current fiscal year.

commissioner of revenue is still responsible for issuing the licenses and permits. The commissioner can also suspend or revoke the licenses and permits. Finance department staff accept applications for employee liquor permits.

The code establishes a Liquor Control Board of Review to hold hearings and make decisions about disputed cases regarding the city's liquor code. The five-member board, appointed by the mayor, must include at least two attorneys, one neighborhood representative, and one liquor industry representative.

Expenditures for the liquor control function were included in the Revenue Division of the Finance Department's budget prior to the transfer to the Neighborhood and Community Services Department. The Regulated Industries Division budgeted expenditures for 1999 are \$342,707. The division has responsibilities for regulating liquor, commercial vehicles, amusements and adult entertainment. The division had four positions in 1998. There are seven positions budgeted for 1999. The increase is the result of a Local Law Enforcement Block Grant (LLEBG). The LLEBG is intended to enhance regulation of the alcoholic beverage and adult entertainment industries.

Liquor license and permit budgeted revenue for fiscal year 1999 is \$800,000. The 1999 budgeted expenditures of \$342,707 are for the Regulated Industries Division. The division's expenditures are less than half of the revenue for liquor licenses and permits. However, the Regulated Industries Division expenditures do not include all of the city's direct expenditures related to the liquor control function because the Finance Department issues employee liquor permits.

### **Liquor Licenses and Permits**

The city issues licenses to establishments that sell liquor. There are about 600 licenses for sales by drink and about 300 for package sales stores. Sales by drink licenses allow establishments to sell liquor for consumption on the premises. Package licenses allow for sales for consumption off the premises. Liquor licenses must be renewed each year.

Fee levels for liquor licenses are constrained by state statute. The state limits the levels to no more than 150 percent of state fees. Some of the fees have not been changed since 1934.

To be issued an establishment license, a person must meet a number of requirements. Generally, they must have the consent of the majority of



surrounding property owners. The city code also requires that license holders must be "of good moral character." The manager of regulated industries investigates applicants and makes a recommendation about licensing to the commissioner of revenue.

The city also requires employees of licensed businesses to have permits. Employee permits allow individuals to work in establishments that sell liquor. Employee permits are valid for three years. The permit fee is \$10.50.

An individual must meet a number of requirements in order to be issued an employee permit. Individuals who are under the age of 21 or have been convicted of felonies may only be employed in certain circumstances. Applicants must provide a criminal history record from the Kansas City Police Department. Applicants must have evidence that a licensee intends to employ them.

Liquor license and permit revenues have increased since 1995. Employee permit revenues have been relatively steady since 1995. Budgeted employee liquor permit revenues for 1999 reflect an anticipated increase in the permit fees.

**Exhibit 1: Liquor License and Permit Revenues**

Fiscal Year	Alcoholic Beverage Licenses and Fees	Employee Liquor Permits
1995	\$ 467,047	\$ 111,477
1996	534,672	107,743
1997	544,437	99,986
1998	603,885	103,637
1999 (budget)	560,000	240,000

Source: City's Financial Management System.

### **Enforcement**

The Police Department and the commissioner of revenue enforce city liquor laws. The commissioner of revenue has the power to call for a hearing before the Liquor Control Board of Review to suspend or revoke licenses and permits. The manager of the Regulated Industries Division may investigate reported violations and make recommendations to the commissioner.

The City Code also allows for informal disposition of cases. Cases may be disposed of without a formal hearing when an agreement is reached between the manager of regulated industries and the licensee.

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## **Summary of the 1993 Performance Audit**

The April 1993 performance audit addressed city staff discretion, employee permitting, license renewals, and cash handling. We found that city staff had wide discretion over granting licenses and imposing sanctions. We recommended that management controls be established to reduce the risk that city staff might be influenced by those they regulate. We noted that staff was not complying with certain provisions of the city code in the employee permitting process. We found that license records were not adequately reviewed prior to license renewal. The program's record keeping system was cumbersome and hindered adequate review. Finally, we noted weaknesses in cash handling.



Exhibit 2: Status of Audit Recommendations, as Determined by Follow-up

1. The division supervisor should develop written policies and procedures designed to improve the effectiveness and management control over the issuance of liquor licenses, including catering permits. Specifically, the procedures should address the application procedures, including the information required, how the waiting list will be established, and how applicants can move up the list.	Partially Implemented
2. The procedures should address the number of consents required and how that number affects the applicant's right to a hearing and issuance of a license. The Supervisor of Liquor Control should ensure that procedures developed regarding consent from neighboring property owners complies with the alcoholic beverage code.	Implemented
3. The policies and procedures should describe criteria to be used to assess whether sanctions should be imposed on establishments violating the code. In addition, the guidelines should specify what sanctions should be imposed for specific violations, how the timing of the imposition will be determined and provide for increasing penalties with repeat violations. Finally, the guidelines should ensure that decisions to take no action will receive adequate supervisory review.	Partially Implemented
4. The supervisor should develop written guidelines describing the application process.	Implemented
5. The division supervisor should develop written procedures for issuing permits which comply with the code. Specifically, the division should discontinue issuing permanent permits to individuals who have not had a background check completed. In addition, the guidelines should require that temporary permits be issued pending the completion of the background check, at which point the permanent card can be mailed. Permits should include a photograph and thumbprint as required by the code, and should be dated and laminated to prevent alteration. Finally, procedures should be established whereby previous applications by the individual can be checked.	Partially Implemented
6. The division should discontinue issuing temporary employee permits to convicted felons, in accordance with the code.	Implemented
7. Employee permit fees should be increased to the current allowable limit of \$10.50 to cover a larger portion of the cost of processing the permit. When feasible, the City Council should seek voter approval to increase the fee to \$13 which would cover the complete cost of the permit.	Partially Implemented
8. The Director of Finance should take steps to revise the alcoholic beverage code in order to stagger liquor license renewals throughout the year. This change in the code would allow division staff more time to review files and would distribute the division's workload more evenly.	Withdrawn
9. The division supervisor should take steps to improve the recordkeeping system, including those for which the division takes no action. Consideration should be given to computerizing the records for easy access, update, and review.	Not Implemented
10. The Director of Finance should transfer the collection of fees to the Treasury Division cashier windows.	Withdrawn

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## **Findings and Recommendations**

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### **Summary**

Our follow-up work determined that the April 1998 revision to Chapter 10 of the city's Code of Ordinances, along with improvements made by the Regulated Industries Division of the Neighborhood and Community Services Department and by the Finance Department, have improved liquor control operations. As a result, recommendations regarding establishing a waiting list of applicants, obtaining consents, handling cash, and providing information to applicants have either been implemented fully or can be withdrawn due to changes in operations. Written policies, procedures and guidelines related to the liquor control function should be reviewed and revised to ensure they are consistent with the recent changes to the city code.

Our follow-up determined that the division has not developed criteria regarding when sanctions are or are not to be leveled against licensees who violate the law. We also found that permit fees need to be included in the city manager's review of city fees and the filing system needs to be improved.

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### **Code Revisions and Procedural Changes Alleviated Some Conditions Reported in the Original Audit**

In our original audit, we identified several problems with the way the liquor licenses were issued. The code provided only general guidance, and procedures to provide more guidance did not exist. The absence of guidelines was considered a control weakness because it allowed employees to have wide discretion in determining who would receive liquor licenses and how violators would be punished. The lack of controls contributed to an environment in which employees could be vulnerable to attempts to influence by those they regulate. We recommended the division develop written policies and procedures designed to improve the effectiveness and management control over the issuance of liquor licenses.

This recommendation has been partially implemented. The division developed policies and procedures relating to issuing liquor licenses.

The division no longer maintains a waiting list and has developed guidelines to provide to applicants. Cash handling issues have been addressed. In addition, changes to the city code have addressed some of the problems we reported in our 1993 audit. These problems related to the number of consents required for new licenses and the process of issuing employee permits.

Although the division has developed policies and procedures, the division has not yet updated its procedures to reflect the April 1998 revisions to the city code. We did not attempt to assess compliance with the changes in the code when we did our field work for this follow-up audit, as we assumed the division had not yet been able to incorporate the newly amended portions of the law in written procedures. In addition, some of the changes have only affected a small number of applicants. Management needs to review and revise the policies and procedures to ensure that they comply with the revised code.

### **Waiting List Is No Longer a Problem**

In 1993, we found the Finance Department did not have procedures for putting applicants on waiting lists for licenses. We recommended that policies and procedures be written to address how the waiting list would be established and how applicants could move up the list. This portion of the recommendation has been implemented, as the Regulated Industries Division does not maintain a waiting list.

### **Consent Requirements Clarified**

In the original audit, we found that the Finance Department's policies on obtaining consents did not appear to be consistent with the city code. We recommended that procedures address the number of consents required and how that number affects the applicant's right to a hearing and issuance of a license. We also suggested that the supervisor of liquor control ensure that procedures developed regarding consent from neighboring property owners comply with the alcoholic beverage code.

The recommendation has been implemented. Under the revised Alcoholic Beverage Code, a majority of eligible consents is required in all of the cases where consents are a condition of a license being granted. Division procedures clearly establish the investigator responsibilities regarding consents. The specific portion of the city code that we found to be misinterpreted is no longer included in the code. We could not conduct a meaningful test of compliance with the revised code because the new code has only been in effect a short period of time. There have only been a few license applications that have required

consents since the code was revised. We did review one application. That case was handled in compliance with the revised code.

### **Employee Permit Procedures Have Been Strengthened**

In the original audit we found that the Finance Department's issuance of employee permits violated the code. Applicants were issued permits while the city requested police record checks. A programming error caused all applicants who applied on Mondays to be excluded. Although the code required a photo, thumbprint, and that the permit be laminated, the permits issued by the department did not include a photo or thumbprint and were not laminated. We recommended that written procedures for issuing permits be developed that complied with the code.

The recommendation has been partially implemented. Employee permits issued by the city include photographs and are made in such a way that alteration appears difficult. Applicants have to provide criminal record checks, obtained from the Kansas City Police Department, when they apply for a permit. The criminal background check only includes violations that have occurred in the Kansas City metro area on the Missouri side. The check does not include felonies that have occurred in other states.

We also found that the portion of our original recommendation relating to verification of applicant information has not been implemented. Procedures have not been established whereby previous applications by the individual can be checked. As a result, an applicant who is denied a permit based on truthful answers on an application could reapply using fraudulent information and not be caught. We recommend that all applications for employee permits be checked against previous applications.

We conducted a limited file review of one week's worth of records to determine whether any convicted felons received employee permits. We did not identify any convicted felons that received employee permits. However, our analysis would not identify an applicant who had a felony conviction from another state and who had not revealed that conviction on the application form.

### **Application Guidelines Developed**

Our original audit recommended providing liquor license applicants with written descriptions of the application process in order to reduce the risk of arbitrary decisions.



The recommendation has been implemented. Written guidelines describing the application process are provided to applicants. The procedures and guidelines should be reviewed to ensure that they reflect code revisions.

#### **Cash Handling Issues Have Been Addressed**

In our original audit we noted that there were problems with cash handling by the Liquor Control Division of the Finance Department. Staff was not all aware of existing procedures. Reconciliations were not done daily. No single staff person was responsible for reconciliation. There was not adequate segregation of duties. We recommended transferring cash handling to the Treasury Division.

Although the specific recommendation was not implemented, cash handling concerns appear to have been addressed. Employees of the Business License Section of the Finance Department handle cash. Neighborhood and Community Services Department staff does not handle cash.

We conducted a limited review of cash receipts and transactions for the week beginning June 8, 1998. We reviewed records to determine whether deposits and reconciliations were made on a timely basis, voids were not excessive, and receipts were all accounted for. We did not identify any significant problems.

Finance Department staff recently conducted a limited review of the process for issuing liquor licenses and permits and did not identify any significant problems with cash handling.

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### **New Procedures Have Improved Controls, But Further Work Is Needed**

Although considerable progress has been made in addressing the conditions reported in our original audit, we found that some procedures need to be strengthened further. Specifically, we found that the process of determining sanctions against those who violate the city's alcoholic beverage code should be more clearly defined and documented, catering permit procedures should be changed, and that permit fees should be reviewed.

#### **Decisions Should Be Consistent and Documented**

Our original audit reported that the Finance Department did not have guidelines for applying sanctions on establishments that violated city

law, and that sanctions were applied rarely. Supervisory review of decisions to take no action was not documented. In addition, suspensions did not seem to be applied consistently.

We recommended the establishment of policies and procedures regarding sanctions, including criteria to be used to assess whether sanctions should be imposed, what sanctions should be imposed for specific violations, how the timing of the imposition would be determined, and increasing penalties with repeat violations. Finally, the guidelines were to ensure that decisions to take no action would receive adequate supervisory review.

This recommendation has been partially implemented. The Finance Department developed an administrative procedure on disciplinary sanctions for retail sales licenses. The procedure calls for progressive sanctions for repeated violations within a 12-month period. The procedure also establishes specific penalties, such as days of suspension, for specific violations. The procedure calls for the penalties to be assessed after a formal hearing before the supervisor. The city code also allows informal agreements with licensees before a hearing.

Although there are procedures that establish penalties and the penalties increase with repeat violations, criteria have not been established that determine whether action should be taken. These decisions are still left to the discretion of the supervisor and are not consistently documented. The Regulated Industries Division does not have written procedures related to the review and investigation of complaints or sanctions in those cases that do not reach a formal hearing.

Our review of files related to potential violations covering the first half of 1998 indicated that in most cases, no action was taken on the complaint. The files did not, however, indicate why the decision to take no action was made or who made the decision.

Procedural guidelines are important to ensure that licensees are treated consistently. Adequate documentation serves as evidence that proper procedures were followed, and facilitates supervisory review. While the manager should still have some discretion and should not be forced to follow an inflexible formula regarding sanctions, it is important that the process be consistent and well-documented.

In order to protect the staff and the city against the risk or appearance of undue influence by those they regulate, the process of investigating complaints and determining penalties, including the decision not to penalize, should be documented. At a minimum, documentation on each



complaint should include the following: name of the employee who took the complaint and to whom it was assigned for investigation; the results of the investigation; the rationale for involving the Law Department; the results of the Law Department investigation, if any; notes on any contact with representatives from the establishment, the police, or other appropriate parties; the final decision, including decisions to take no action; the rationale behind the decision and the names of the employees who made and reviewed the decision.

### **Grant Will Add Investigatory Personnel**

The Regulated Industries Division has applied for and received a two-year Local Law Enforcement Block Grant (LLEBG) intended to increase the city's ability to enforce regulations of liquor and adult entertainment businesses. The grant will provide approximately \$400,000-\$500,000 for hiring staff and purchasing equipment. The city intends to use the grant to provide inspections, investigations and neighborhood training.

In order to maintain the investigator positions, the division will have to re-apply for the grant when it expires in October 1999. The manager of the division expects to receive additional funds. Should the grant not be continued at some time in the future, however, the division will be forced to eliminate positions or find some means of continuing their cost, probably through General Fund appropriations.

### **Catering Permit Procedures Should Be Revised**

Our original audit reported that catering permits were being issued within 14 days of scheduled events, although the code requires such permits to be applied for at least 14 days before the event. Our follow-up work determined that the division continues to issue catering permits in less than 14 days.

We reviewed catering permit applications filed in May 1998. Forty percent of the approved applications were filed less than 14 days of the event. We found two approved applications that were made the day before the event, and three that were filed two days before the event. Issuance of these permits appears to conflict with the code.

The manager of regulated industries told us that caterer permits can be approved within 14 days of an event because the applicants must already have a liquor license and the city has background information on file.

We propose that the code be revised to reduce the number of days before an event that an application must be made. The manager of regulated

industries believes five working days is a sufficient amount of time to review applications for catering permits.

### **Permit Fees Should Be Reviewed**

Our original audit recommended that permit fees be increased from \$8.50 to the allowable limit of \$10.50. We also recommended the city seek voter approval to increase the fee to \$13. In the original audit, we found that the fee of \$8.50 did not cover the costs of including photographs and thumbprints on the permit cards.

The recommendation has been partially implemented. The fee was raised to \$10.50, but efforts have not been made to increase the fee beyond that level and to ensure that revenues are covering costs.<sup>3</sup>

The special report on fees and service charges issued by the City Auditor's Office in February 1998 recommended that the city manager develop a fee policy for the City Council to consider.<sup>4</sup> The city manager has begun to develop a user fee revenue policy and intends to make recommendations to the City Council on user fees, cost recovery goals and a thorough fee review process as part of the fiscal year 2000 budget process.<sup>5</sup> Because of our recommendations in the fee study and the city manager's current efforts, we did not analyze the adequacy of the current employee permit fee. We recommend that the employee permit fees for liquor control be included in this study.

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### **Filing System Remains Cumbersome**

In the original audit we found that renewal applications were not being adequately reviewed. The supervisor had not signed a large number of renewal applications nearly four months after the renewal period had ended. The filing system was cumbersome, making reviewing an establishment's complete record difficult and time-consuming. We noted that a 1986 report by this office had recommended consolidating files and considering computerization.<sup>6</sup>

<sup>3</sup> Ordinance 930664, July 15, 1993.

<sup>4</sup> *Fees and Service Charges: A Comprehensive System Is Needed*, Office of the City Auditor, Kansas City, Missouri, February 1998, p. 35.

<sup>5</sup> Memorandum from Budget Officer Larry D. Plaisted to Department Directors, August 14, 1998.

<sup>6</sup> *Review of the Performance of the Liquor Control Inspection Program*, Office of the City Auditor's Office, January 1986, pp.6-7.

Our follow-up work indicates that although applications are being reviewed on a more timely basis, reviewing an establishment's complete record in the filing system continues to be difficult. Records for liquor licenses and permits are maintained in separate physical files and in several computer databases. Each liquor license has an establishment file. Although confidential financial information is now included in the establishment file, police reports related to each establishment are filed separately. The Regulated Industries Division also maintains renewal files for each licensed establishment.

A task force established in 1993 examined the Liquor Control Division's record keeping but does not appear to have reached any conclusions or made any recommendations. The task force included representatives from the Finance, Law, and Information Systems departments and the City Auditor's Office. The group only met a few times and did not reach any conclusions or make any recommendations.

The Regulated Industries Division plans to implement a computerized system during the current fiscal year. This system is commonly referred to as KIVA or ADAPT 2000. The new system is primarily designed to be a permitting and licensing system – initially it will not be used for complaint tracking and investigating.

We believe the filing system should allow staff to easily develop a complete history of establishments that are licensed and employees who have permits. The system should be able to relate names to establishments they own or are employed by. The system should also allow the city to track violations and complaints. We recommend the director of neighborhood and community services improve the record keeping system.

It is important that the filing system be efficient and useable for division staff. We believe procedures should be developed to maintain records for establishments, liquor licenses and permits in a central file. The consolidation of records would enable staff to have a complete picture of the history of an establishment as well as make it easier to track establishments that have repeat violations.

**Recommendation to Stagger Renewals Is Withdrawn.** As a means of increasing the time available for reviewing applications, our original audit recommended that renewals be staggered throughout the year. The recommendation was not implemented. We have since determined that staggering renewals would be difficult due to state renewal dates. In addition, we found that renewed applications are currently being

reviewed in a timely manner. As a result, we withdraw this recommendation.

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## Recommendations

1. The director of neighborhood and community services should review and revise as necessary all liquor control policies, procedures and guidelines in light of the recent code changes.
2. The director of finance should develop procedures to require all employee permit applications to be checked against previous applications.
3. The director of neighborhood and community services should further develop procedures relating to sanctions to include a requirement that all stages of the investigation of complaints be documented. The complaint record should include the names of involved staff, the results of the investigation and the final decision.
4. The city manager should prepare an ordinance for consideration by the City Council to change the period of time required to apply for a catering permit to five working days.
5. The city manager should ensure that liquor control fees are included in his fee analysis.
6. The director of neighborhood and community services should improve the record keeping system to enable the city to easily develop complete histories of establishments that are licensed and employees who have permits.



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## **Appendix A**

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### **Director of Neighborhood & Community Services' Response**







## Inter-Departmental Communication



**DATE:** October 8, 1998

**TO:** Mark A. Funkhouser, City Auditor

**FROM:** Robert J. Mohart, Director, Neighborhood and Community Services

**SUBJECT:** Liquor Control Follow-up Audit Report

As you have requested, my initial response to the recommendations contained in your draft report is as follows:

Recommendation 1; *"The director of neighborhood and community services should review and revise as necessary all liquor control policies, procedures and guidelines in light of the recent code changes."* The regulated industries division manager, Eldon Audsley, and I are in agreement that policies, procedures and guidelines need to keep pace with code revisions. Division staff has been trained in the new processes, especially those that involve the application process for liquor establishment licenses. A temporary procedure that conforms with the provisions and time frames contained in the revised code has been distributed to and implemented by staff. New consent forms, notification forms and petition forms have been developed for use by applicants for licenses and by staff. As you may recall, a review of the revised code is planned early next year before the Finance and Administration Committee, and permanent policies and procedures will be developed as a result of the committee's findings.

Recommendation 3; *"The director of neighborhood and community services should further develop procedures relating to sanctions to include a requirement that all stages of the investigation of complaints be documented. The complaint record should include the name of involved staff, the results of the investigation and the final decision."* We concur with the recommendation and will develop the tracking mechanism to effectively follow a complaint from the initial report through the final decision. Also, a table of the codes provisions and the appropriate sanctions that should be imposed upon violation of each provision will be further developed. The table will detail those provisions expected to result in general ordinance summons citation and those provisions expected to result in administrative sanction. We believe the code allows some discretion through the informal disposition of contested cases and are in favor of retaining that provision. A licensee's past record and reputation should be allowed to influence the disposition of contested cases, as aggravating or mitigating factors may exist on a case by case basis.

Recommendation 4; *"The city manager should prepare an ordinance for consideration by the City Council to change the period of the time required to apply for a catering permit to five working days."* The city manager has stated that he concurs with the recommendation. We will

incorporate the recommendation into the next series of revisions to the code, probably early in 1999.

Recommendation 5; *"The city manager should ensure that liquor control fees are included in his fee analysis."* The city manager has indicated that he agrees with this recommendation, and that he will support my proposal to seek an increase before the General Assembly next year.

Recommendation 6; *"The director of neighborhood and community services should improve the record keeping system to enable the city to easily develop complete histories of establishments that are licensed and employees who have permits."* We concur with the recommendation and will seek computer software upgrades that will allow for the efficient compilation of the data related to establishment licenses and owners. It should be noted that the director of finance has responsibility for the employee permit record system, and we will discuss this aspect of the recommendation with her as both departments work closely and cooperatively on the licensing and permitting functions. The KIVA permitting system has limited historical information tracking ability, so additional software will be needed to fully implement this recommendation.

Although I accept the report's findings and generally concur with its recommendations, I believe it bears mentioning that the Regulated Industries Division's authority to investigate applicants for licenses and permits, and to investigate complaints, was approved by the City Council only six months ago. Consequently, the division has recently developed a plan to physically relocate its operations from the finance department to the 10th floor, to organize the liquor establishment files in a central location, and to add personnel. I have confidence that with additional resources, including computer technology, the division can be transitioned into the modern era. However, the timelines for the full implementation of recommendation no. 6 will greatly depend on the provision of computer enhancements that can complement the KIVA Permit System. Therefore, my agenda includes a proposal for hikes in the liquor and commercial vehicle license and permit fees to allow the city to assess the costs of an effective regulation of those industries to the regulated entities.

As your report indicates (page 3, paragraph 4), the FY99 budgeted expenditures are less than half of the revenue collected for liquor licenses and permits, so it appears that the monies are available to increase the division's budget to an appropriate level to assure implementation of your recommendations. Also, the current appropriation (\$342,707) is somewhat misleading, as \$50,000 is included in that appropriation for a legal aid attorney's contract to represent neighborhood groups. I wholeheartedly endorse your recommendation no. 5 (Fee Study) as it complements my goal to maximize the revenues generated from the regulated industries.

I appreciate the courteous and professional manner in which your office has conducted the follow-up audit investigation and look forward to the exit conference.

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## **Appendix B**

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### **Director of Finance's Response**





## Interdepartmental Communication

RECEIVED  
OCT 14 1998  
CITY AUDITOR'S  
OFFICE

Date: October 1, 1998

To: Mark Funkhouser, City Auditor

From: Janice M. Reed, Chief Financial Officer and Director of Finance *JM Reed/wjg*

Subject: Liquor control follow-up audit report

I appreciate the opportunity to respond to the draft of the liquor control follow-up audit report. The Finance Department's response to the recommendation directed to the Director of Finance is set forth below.

Recommendation Number 2 – The Director of Finance should develop procedures to require all employee permit applications to be checked against previous applications.

### Agree

The implementation of KIVA, a citywide permitting system, in October, 1998 will enable the Finance Department to perform the historical checks recommended in the audit report. In their application, all applicants are required to provide identifying information, including their full name and a driver's license number or other identification number. The KIVA system will allow the Finance Department to query on the name and/or the identification number and view the application history. At conversion, only active permit information will be transferred to the KIVA database. For applications submitted after the conversion, we will retain in the KIVA database the dates of the applications, whether the applications were approved or rejected, and any notes recorded about the applicant such as the reason for rejection.

If you require additional information, you may contact me at extension 1732.

cc: Robert L. Collins, City Manager